

**Supplemental Reporting Document  
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May 2006 Investment Committee Meeting  
(March 2006 Reporting Period)**

**Quarterly Reports**

- AIM Program
- Internally Managed Domestic Fixed Income
- Internally Managed Short-Term Fund
- Internally Managed Short Duration Fund
- Internally Managed High Quality Libor Fund



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May 15, 2006

**SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Quarterly Performance Report
- II. PROGRAM:** Alternative Investment Management (AIM) Program
- III. RECOMMENDATION:** Consent
- IV. ANALYSIS:**

**Background**

In accordance with AIM Program Policy and as provided for in the external resources' contracts, quarterly performance reports are required for the AIM Program. Attachment 1 provides the AIM Portfolio Performance Report as of December 31, 2005. The report may be modified over time to reflect additional enhancements.

**Program Review**

As of December 31, 2005, the AIM Program had active commitments that totaled \$27.7 billion. Commitments to exited investments totaled \$1.9 billion bringing since inception (1990) commitments to \$29.6 billion. Since inception, the AIM Program has made contributions of \$18.8 billion and received distributions of \$14.8 billion. Of the \$14.8 billion in distributions, \$8.0 billion represents realized gains, income, and dividends. The AIM Program's fully realized investments have provided a since inception return of 17.6%. This represents a 1.6x return of

contributed capital. Since Inception to December 31, 2005, the AIM Program has generated a net IRR of 12.2%.

**V. STRATEGIC PLAN:**

Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

**VI. RESULTS/COSTS:**

Attachment 1 provides the Executive Summary for the Alternative Investment Management Program - Quarterly Review prepared by the Private Edge group of State Street Corporation and verified by the Performance Reporting Unit staff.

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Dana C. Warmenhoven  
Investment Officer  
Performance Monitoring Unit

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Matthew Flynn  
Interim Division Chief, Investment Office

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Anne Stausboll  
Interim Chief Investment Officer

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

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**ALTERNATIVE INVESTMENT MANAGEMENT PROGRAM**

**QUARTERLY REVIEW**

**EXECUTIVE SUMMARY**

*For the quarter ended  
December 31, 2005*

*Prepared by The PrivateEdge Group, State Street Corporation*



**STATE STREET.**

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## I. ALTERNATIVE INVESTMENT MANAGEMENT PROGRAM (AIM)

### A. AIM PROGRAM - OVERALL PORTFOLIO

This quarterly review has been prepared by The PrivateEdge Group ("PEG") at State Street Corporation and verified by the Performance Monitoring Unit Staff, based on cash flow, valuation and activity data generated by PEG, Grove Street Advisors ("GSA"), and various AIM Program External Resources. Specific highlights of the portfolio are given below.

#### Portfolio Summary

- As of December 31, 2005, the AIM Program had \$27.7 billion of active commitments. Commitments to exited investments totaled \$1.9 billion, bringing since inception commitments to \$29.6 billion.
- Since inception, the AIM Program has made contributions of \$18.8 billion and received distributions of \$14.8 billion. Of the \$14.8 billion in distributions, \$8.0 billion represents realized gains, income and dividends. The Program has become self-funding. During 2005, distributions exceeded contributions by \$0.4 billion.
- Due to the young relative age of the AIM portfolio, a large amount of the committed capital has not been called. At December 31, 2005, 37% of the active capital commitments, or \$10.3 billion, remained unfunded.

#### SUMMARY OF AIM PORTFOLIO SINCE INCEPTION (MARCH 1990) THROUGH DECEMBER 31, 2005 (US\$ IN MILLIONS)

	Capital Committed <sup>(1)</sup>	Capital Contributed <sup>(2)</sup>	Reported Value <sup>(3)</sup>	Distributions		Investment Multiple
				Return of Capital	Realized Gain <sup>(4)</sup>	
<b>Total Active Commitments<sup>(5)</sup></b>	<b>\$27,705.3</b>	<b>\$17,362.4</b>	<b>\$10,934.9</b>	<b>\$5,666.7</b>	<b>\$6,872.9</b>	<b>1.4x</b>
<b>Total Exited Commitments<sup>(6)</sup></b>	<b>--</b>	<b>\$1,439.5</b>	<b>--</b>	<b>\$1,104.6</b>	<b>\$1,143.0</b>	<b>1.6x</b>

<sup>(1)</sup> Represents all authorized commitments as of December 31, 2005, including those commitments that have been authorized but not yet funded.

<sup>(2)</sup> Includes fees in excess of committed capital.

<sup>(3)</sup> Based on values reported by the general partners as December 31, 2005.

<sup>(4)</sup> Realized gains include interest, dividends, gains and losses distributed by the general partners in addition to interest paid by CalPERS for participation in subsequent closings of certain investments.

<sup>(5)</sup> An active commitment refers to an investment that has not reached the end of its legal term.

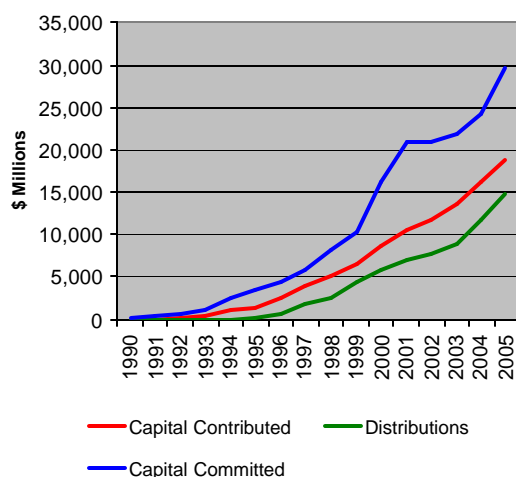
<sup>(6)</sup> An exited commitment is defined either as a commitment that has ended in accordance with the terms of the partnership agreement or a commitment in which the limited partners have chosen to end prematurely due to unforeseen circumstances.



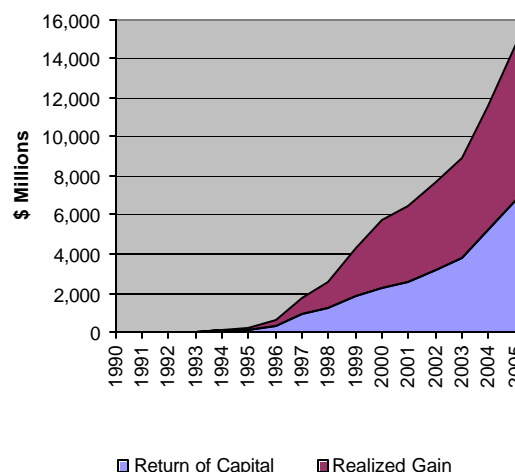
## Performance

- Fully realized investments have provided a since inception return of 17.6%. This represents a 1.6x return of contributed capital.
- As of December 31, 2005, the weighted average age of all of the current investments in the AIM portfolio was 4.6 years. Consequently, a large portion of the portfolio is in the early stage of its investment life, when payment of fees has not been offset by young investments that are held at cost. This is known as the J-Curve effect.
- To address the young age of the partnership portfolio, CalPERS adopted a short-term benchmark, the Venture Economics Custom Young Fund Universe. The benchmark measures performance of the AIM partnerships in the first five years of life against a similarly aged universe of Venture Economics data. As of December 31, 2005, the AIM young fund net internal rate of return ("IRR") was 19.6% which exceeded the preliminary estimate of the Custom Young Fund Universe median return of 3.6% by 1,600 basis points. The AIM Program is displaying solid returns for a young portfolio.
- Since inception to December 31, 2005, the AIM Program generated a net IRR of 12.2%. At December 31, 2005, the public market ten-year rolling average return for the CalPERS' Custom Wilshire 2500 Index was 9.0%. The public markets have been recovering over the past few years, but there is typically a lag in the valuations in the private market relative to those in the public markets.

**AIM PROGRAM CUMULATIVE  
CASH FLOW SINCE INCEPTION**



**AIM PROGRAM CASH DISTRIBUTIONS  
SINCE INCEPTION**



## Portfolio Activity

- 11 new commitments were authorized during the fourth quarter of 2005 for a total of \$1.2 billion.
- During the fourth quarter of 2005 the AIM Program received 91 investment opportunities. During the same period, GSA reviewed 96 investment opportunities on behalf of CEV I, II and III. Both the AIM Program and GSA may have reviewed some of the same opportunities.
- During 2005, the AIM Program contributed \$2,730.9 million to and received distributions of \$3,155.4 million from the underlying portfolio. Of the \$3,155.4 million in distributions, \$1,597.5 million represents income and realized gains.

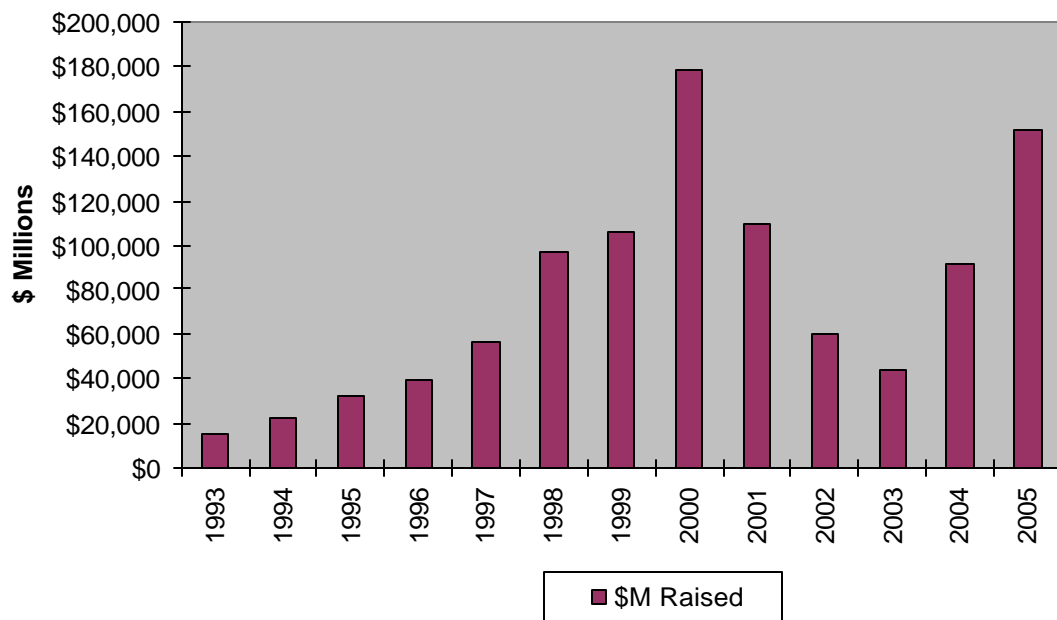


## B. MARKET OVERVIEW

### Market

- According to the Private Equity Analyst, \$151.8 billion was committed to 317 funds during 2005. The commitment pace is up 65% from 2004 when \$92.0 billion was committed to 320 funds. Venture capital fundraising was up 32% from 2004 with \$22.4 billion committed in 2005. Buyout fundraising was up 90% from 2005 with \$106.4 billion committed in 2005.

**Funds Raised (All Private Equity)**

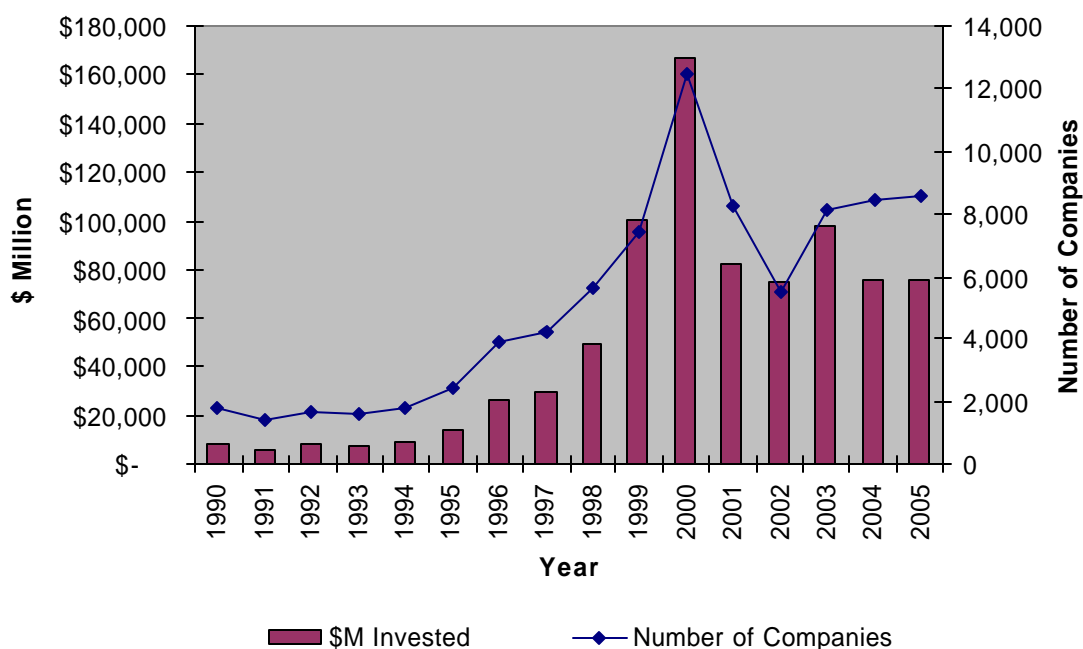


Source: Private Equity Analyst



- Deal activity for all private equity during the 2005 decreased in both dollar amount and in the number of companies receiving funding compared to 2004. According to Venture Economics, 8,588 companies received \$75.8 billion in funding in 2005, compared with 8,959 companies that received \$78.6 billion in 2004.
- In 2005, venture capital activity decreased in both dollar amount and in the number of companies that received funding. According to Venture Economics, 7,152 companies received \$41.2 billion in venture funding in 2005 compared with 7,611 companies that received \$43.5 billion for the same period a year ago. During 2005, buyout activity decreased in dollar amount but increased in the number of companies that received funding. According to Venture Economics, 3,130 companies received \$42.9 billion in buyout funding in 2005, compared with 3,062 companies that received \$44.5 billion for the same period in 2004.<sup>(8)</sup>

### Dollars Invested (All Private Equity)



Source: Venture Economics

<sup>(8)</sup> According to Venture Economics, certain investments meet the definitions for both Venture and Buyout categories and are included in the total for each category. For the purposes of determining the Total Private Equity investments for the quarter, these investments are included only once. As such, the sum of Venture and Buyout categories exceeds the Total Private Equity figures for the quarter by the amounts of the investments that meet both Venture and Buyout definitions.

## C. PORTFOLIO OVERVIEW

### Portfolio Diversification – By Strategy

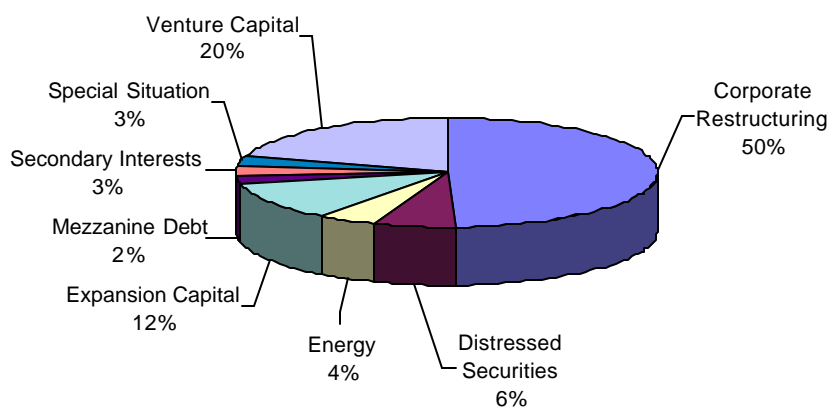
The AIM Program invests in all types of private equity and is well diversified. The current commitments are generally consistent with the diversification within the private equity marketplace. Thus, a majority of the active AIM Program commitments are to Corporate Restructuring, Venture Capital and Expansion Capital.

### ACTIVE COMMITMENTS BY PORTFOLIO STRATEGY (US\$MILLION)

	<i>Active Commitments</i>	<i>Contributions</i>	<i>Reported Value</i>	<i>DISTRIBUTIONS</i>	
				<i>Return of Capital</i>	<i>Realized Gain<sup>(9)</sup></i>
Corporate Restructuring	\$13,718.7	\$8,002.9	\$5,493.5	\$2,881.6	\$3,876.0
Distressed Securities	\$1,649.8	\$860.6	\$651.0	\$326.0	\$341.8
Energy	\$1,236.3	\$714.7	\$387.2	362.8	521.8
Expansion Capital	\$3,279.1	\$2,433.1	\$1,584.2	\$522.8	\$551.8
Mezzanine Debt	\$592.1	\$428.4	\$146.1	\$201.8	\$95.5
Secondary Interests	\$837.3	\$695.2	\$289.7	\$569.1	\$90.1
Special Situation	\$894.6	\$502.7	\$341.8	\$164.6	\$106.1
Venture Capital	\$5,497.4	\$3,724.8	\$2,041.4	\$638.0	\$1,289.8
<b>Total</b>	<b>\$27,705.3</b>	<b>\$17,362.4</b>	<b>\$10,934.9</b>	<b>\$5,666.7</b>	<b>\$6,872.9</b>

<sup>(9)</sup> Realized gains include interest, dividends and gains distributed by the general partners.

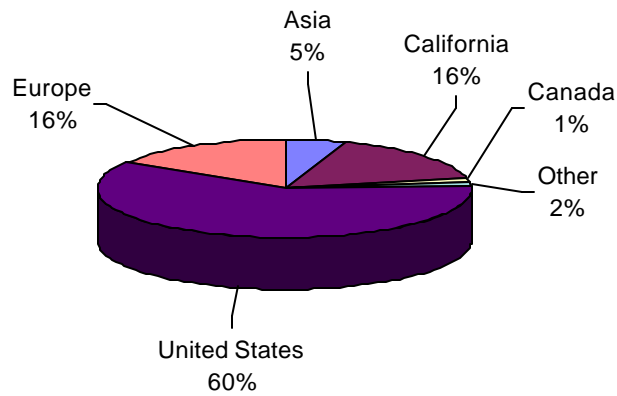
### AIM Program - Portfolio Diversification by Strategy As A Percentage of Active Commitments As of December 31, 2005



## Portfolio Geographic Diversification

As of December 31, 2005, CalPERS' AIM portfolio was well diversified by geographic region. By reported market value, 16% of the investments were in companies with their primary locations within California and 60% of the investments were in non-California domestic areas. International portfolio companies represented 24% of the total reported market value of all portfolio companies.

### Portfolio Diversification by Geographic Location As Measured by CalPERS' Market Value Exposure As of December 31, 2005



## Portfolio Company Diversification by Industry

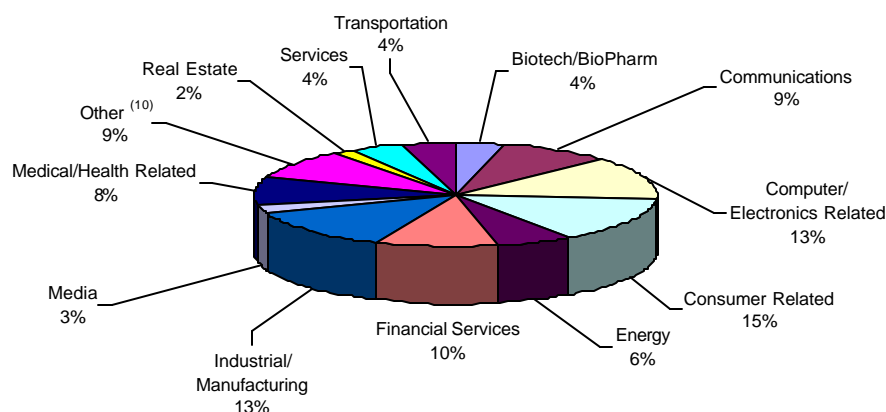
As of December 31, 2005, the CalPERS AIM portfolio was broadly diversified by industry. The table below outlines the current reported value of the portfolio companies held in the AIM portfolio. Within the overall portfolio, the largest segments were consumer-related, computer/electronics, and industrial/manufacturing.

### PORTFOLIO DIVERSIFICATION BY INDUSTRY AS OF DECEMBER 31, 2005

Industry	Reported Value (US\$ MILLIONS)
Biotechnology/BioPharma	401.8
Communications	946.4
Computer/Electronics -Related	1,340.3
Consumer-Related	1,488.6
Energy	652.0
Financial Services	1,001.8
Industrial/Manufacturing	1,293.2
Media	334.2
Medical/Health-Related	859.6
Other <sup>(10)</sup>	958.6
Real Estate	184.2
Services	447.6
Transportation	422.5
<b>Total</b>	<b>10,330.8</b>

<sup>(10)</sup> Includes CalPERS' investments held through fund-of-funds.

### Portfolio Diversification by Industry As Measured by CalPERS' Market Value Exposure As of December 31, 2005



### **California Focus**

As of December 31, 2005, the AIM Program had \$10.3 billion in active commitments that were either headquartered or had a major presence in California. Active commitments to funds that focus primarily on investments in California were \$2.0 billion. In addition, many AIM Program partnerships actively make investments in California. Currently, California-based companies represent 16% of the reported market value of the AIM portfolio.

#### **CALIFORNIA-BASED PORTFOLIO DIVERSIFICATION BY INDUSTRY AS OF DECEMBER 31, 2005**

<b>Industry</b>	<b>Reported Value (US\$ IN MILLIONS)</b>
Biotechnology/BioPharma	\$ 167.5
Communications	120.7
Computer/Electronics Related	403.3
Consumer-Related	188.9
Energy	34.8
Financial Services	188.1
Industrial Products/Manufacturing	55.6
Media	42.7
Medical/Health-Related	226.1
Other <sup>(11)</sup>	76.1
Real Estate	36.7
Services	96.1
Transportation	36.8
<b>Total</b>	<b>\$ 1,673.3</b>

<sup>(11)</sup> Includes CalPERS' investments held through fund-of-funds.

The AIM Program includes a California-oriented component that is designed to take advantage of a number of factors conducive to targeted investment activity within the state: (i) the unique size characteristics of the California economy; (ii) the existence of a "capital gap" for certain business segments within the state; and (iii) the ability to construct a diversified array of investment vehicles that reflects the state's large number of business entities and the wide range of development cycles that they represent.



## D. AUTHORIZED COMMITMENTS

During the fourth quarter of 2005, the AIM Program authorized 11 new investments, totaling \$1.2 billion in new commitments.

### Commitments and Contributions Since Inception

Since inception to December 31, 2005, CalPERS has contributed capital of \$18.8 billion, including exited investments. As expected, the earlier vintage year partnerships have the highest deployment percentage as it typically takes some time for each partnership to call down the full amount of committed capital. The total capital committed by vintage year is presented in the table below.

**SUMMARY OF CAPITAL COMMITMENTS AND CONTRIBUTIONS  
(US\$ IN MILLIONS)**

<i>Vintage Year</i>	<i>Capital Committed</i>	<i>Capital Contributed</i>	<i>Reported Value</i>	<i>Return of Capital</i>	<i>Realized Gain<sup>(12)</sup></i>	<i>Investment Multiple</i>
<b>1990</b>	\$125.3	\$121.9	\$2.9	\$119.3	\$172.7	2.4
<b>1991</b>	171.7	179.6	0.3	150.5	358.2	2.8
<b>1992</b>	160.0	156.6	5.8	106.7	224.0	2.2
<b>1993</b>	563.0	562.0	71.5	432.7	561.8	1.9
<b>1994</b>	1,507.6	1,416.4	199.8	878.0	1,353.1	1.7
<b>1995</b>	1,197.9	1,137.8	229.2	625.1	968.5	1.6
<b>1996</b>	1,155.9	1,135.3	149.4	586.4	749.6	1.3
<b>1997</b>	1,111.9	1,086.6	377.3	449.1	699.4	1.4
<b>1998</b>	2,217.4	2,164.7	976.0	959.1	920.0	1.3
<b>1999</b>	1,253.0	1,143.8	554.0	352.6	391.5	1.1
<b>2000</b>	3,977.6	3,328.2	2,506.9	756.5	567.7	1.2
<b>2001</b>	4,768.1	3,573.6	2,916.7	1,039.4	749.2	1.3
<b>2002</b>	1,085.3	673.8	703.4	114.3	145.4	N/M
<b>2003</b>	1,496.2	850.7	1,013.7	116.8	126.7	N/M
<b>2004</b>	1,911.3	717.3	724.7	80.2	26.5	N/M
<b>2005</b>	3,858.7	553.7	503.3	4.6	1.6	N/M
<b>Authorized<sup>(13)</sup></b>	\$3,003.8	-	-	-	-	N/A
<b>Total</b>	<b>\$29,564.7</b>	<b>\$18,802.0</b>	<b>\$10,934.9</b>	<b>\$6,771.3</b>	<b>\$8,015.9</b>	<b>1.4</b>

<sup>(12)</sup> Realized gains include interest, dividends, gains and losses distributed by the general partners in addition to interest paid by CalPERS for participation in subsequent closings of certain investments.

<sup>(13)</sup> These commitments have been authorized subject to satisfactory final due diligence, negotiation of investment terms and conditions and completion of all legal documents, including opinions of counsel regarding the preservation of CalPERS' limited liability status, and no material changes to the investment opportunity.

## **E. SIGNIFICANT EVENTS/ MATERIAL EXCEPTIONS TO POLICY (AS REPORTED BY THE AIM PROGRAM)**

### **Significant Events**

- None to report for the quarter ended December 31, 2005.

### **Material Exceptions to Policy**

- None to report for the quarter ended December 31, 2005.





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May 15, 2006

**SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Internally Managed Domestic Fixed Income  
(Quarter Ended March 31, 2006)
- II. PROGRAM:** Domestic Fixed Income
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

Attached is a report that reviews compliance of the internally managed domestic fixed income portfolio to approved policy guidelines for the quarter ended March 31, 2006.

The Investment Committee approved the "Statement of Internally Managed Dollar Denominated Fixed Income Policy, Guidelines and Procedures" at its May 13, 1996 meeting. As recommended by the Investment Policy Subcommittee, these guidelines require at least quarterly reporting on relative duration, sector weightings, and violations of the policy.

Section I of the report graphically displays interest rate risk of the portfolio by comparing its duration relative to that of its benchmark, the Lehman Long Liability Index (LLL). Duration is a measure of price sensitivity to interest rate changes. It is the percentage change in price given a 100 basis point (1 Percent) move in interest rates. As indicated in the graph, the portfolio is well within the guideline of  $\pm 20\%$  of the Lehman Long Liability on an option adjusted basis.

Section II of the report depicts the sector risk of the portfolio. Sector risk is the risk of holding proportions of asset class sectors that differ from proportions in the benchmark index, the Lehman Long Liability. The table lists the permissible range for weightings in each sector, and sector weightings of the Lehman Long Liability and this portfolio. The portfolio is within approved guidelines.

Section III of the report describes violations of the overall policy and guidelines, including investing only in permissible securities and compliance with specified restrictions. There were no violations of policy or guidelines.

**V. STRATEGIC PLAN:**

This item supports Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

**VI. RESULTS/COSTS:**

The market value of the internally managed domestic fixed income portfolio as of March 31, 2006 was \$43.0 billion. This agenda item provides a review of portfolio compliance to its guidelines.

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Mike Johnson  
Investment Officer

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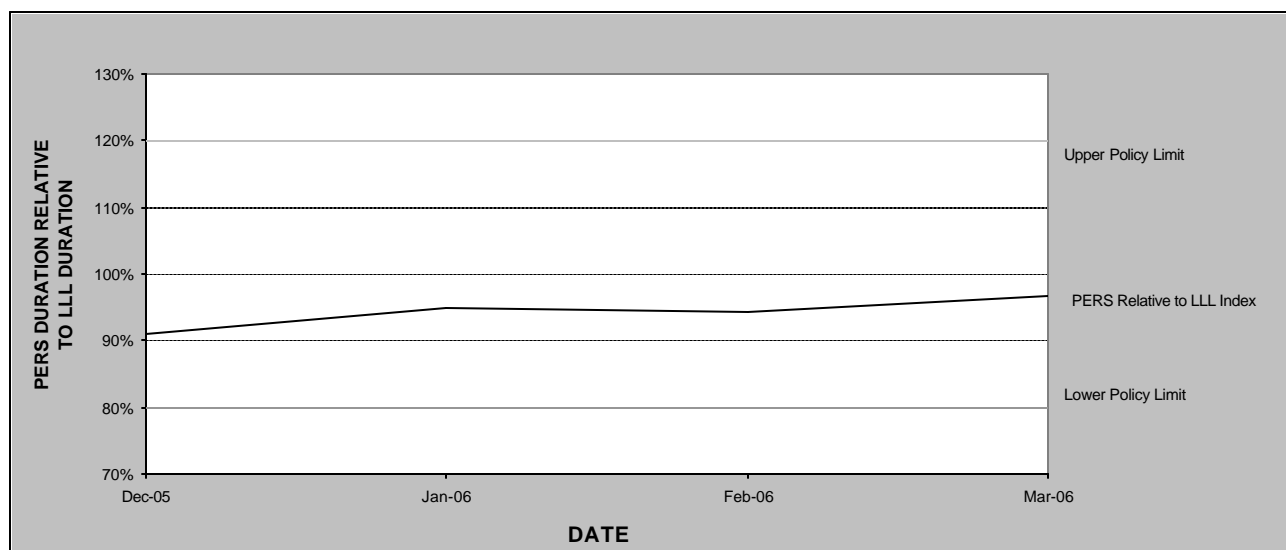
Curtis D. Ishii  
Senior Investment Officer

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Anne Stausboll  
Interim Chief Investment Office

# **QUARTERLY REVIEW OF THE DOMESTIC FIXED INCOME PORTFOLIO ENDING March 31, 2006**

## **I. Interest Rate Risk**



## **II. Sector Risk**

SECTOR	PERMISSIBLE RANGE	LONG LIABILITY	6/30/2005 PERS	9/30/2005 PERS	12/31/2005 PERS	3/31/2006 PERS
Government	0-50	40	36	34	33	31
Mortgages	10-60	30	34	34	35	35
Sovereigns	0-15	3	2	2	2	2
Investment Grade						
Corporates	10-60	24	25	25	25	27
Opportunistic <sup>1</sup>	0-19	3	5	5	6	5

<sup>1</sup> High Yield

## **III. Violations to Policy: None**



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May 15, 2006

**SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Internally Managed Short-Term Fund  
(Quarter Ended March 31, 2006)
- II. PROGRAM:** Domestic Short-Term
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

Attached is a report that reviews compliance of the internally managed short-term fund to approved policy guidelines for the quarter ended March 31, 2006.

The Investment Committee approved the "California Public Employees' Retirement System's Statement Of Internally Managed Dollar Denominated Short-Term Fund Investment Policy, Guidelines and Procedures" (Policy) at its November 18, 1996 meeting. These guidelines require at least quarterly reporting of weighted-average days to maturity, portfolio allocation by asset class and credit quality, and an exceptions report that covers policy violations.

Section I measures the short-term fund's interest rate exposure using weighted-average days to maturity.

Section II lists the portfolio's allocation by asset class and credit quality as of quarter end. The table also lists other positions of the fund relative to policy restrictions. The portfolio is within approved guidelines.

Section III describes violations of the Policy that occurred during the quarter, including investing only in permissible securities and compliance with specified restrictions. There were no violations during the quarter ended March 31, 2006.

**V. STRATEGIC PLAN:**

This item supports Goal VIII, Objective 4, Strategy C by providing a monitoring system that periodically updates risk management review and findings for the asset class.

**VI. RESULTS/COSTS:**

The market value of the short-term portfolio as of March 31, 2006 was \$886 million. This agenda item reviews the portfolio's compliance to its guidelines.

Prepared by:

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Investment Officer

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Racel Sy  
Investment Officer

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Arnold B. Phillips  
Senior Portfolio Manager

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Curtis D. Ishii  
Senior Investment Officer

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Anne Stausboll  
Interim Chief Investment Officer

**QUARTER REVIEW OF THE DOMESTIC  
SHORT-TERM FUND ENDING March 31, 2006**

**I. Interest Rate Risk**

The weighted-average days to maturity of the Short-Term Fund was 1.9 days.

**II. Asset Allocation by Asset Type and Credit Quality, and Other Policy Limits**

<u>Asset Type</u>	<u>Policy Limits</u>	<u>Portfolio Holdings</u>
State Street Bank STIF	100%	62.1
U.S. Treasury and Agencies	100	0.0
Repurchase Agreements	20	0.0
Corporate Securities	100	37.8
Asset-Backed Securities	25	0.1
Total Short-Term Fund		<u>100.0%</u>

**Credit Quality**

Securities rated A1/P1 or higher	100%	99.4
Total Split Rated and A2/P2	30	<u>.6</u>
Total Short-Term Fund		<u>100.0%</u>

**Other Restriction**

Total Floating Rate Exposure	50%	0.0%
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**III. Violations To Policy**

There were no policy violations this quarter:



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May 15, 2006

**SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Internally Managed Short Duration Fund  
(Quarter Ended March 31, 2006)
- II. PROGRAM:** Domestic Fixed Income
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

Attached is a report that reviews compliance of the internally managed Short Duration Fund to approved policy guidelines for the quarter ended March 31, 2006.

The Investment Committee approved the "California Public Employees' Retirement System Statement Of Investment Policy For Dollar-Denominated Fixed Income Limited-Duration Investment Policy" (Policy) at its February 14, 2006 meeting. These guidelines require at least quarterly reporting of portfolio duration, sector weightings, fixed and floating rate breakout, security rating scales, and an exceptions report that covers policy violations.

Section I measures the short-term fund's interest rate exposure using portfolio duration.

Section II lists the portfolio's allocation by asset class and credit quality as of quarter end. The table also lists other positions of the fund relative to policy restrictions. The portfolio is within approved guidelines.

Section III describes violations of the Policy that occurred during the quarter, including investing only in permissible securities and compliance with specified restrictions. There were no violations during the first quarter of 2006.

**V. STRATEGIC PLAN:**

This item supports Goal VIII, Objective 4, Strategy C by providing a monitoring system that periodically updates risk management review and findings for the asset class.

**VI. RESULTS/COSTS:**

The market value of the Short Duration Fund portfolio as of March 31, 2006 was \$856 million. This agenda item reviews the portfolio's compliance to its guidelines.

Prepared by:

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Mike Johnson  
Investment Officer

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Racel Sy  
Investment Officer

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Arnold B. Phillips  
Senior Portfolio Manager

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Curtis D. Ishii  
Senior Investment Officer

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Anne Stausboll  
Interim Chief Investment Officer

**QUARTER REVIEW OF THE INTERNALLY MANAGED  
SHORT DURATION FUND ENDING March 31, 2006**

**I. Interest Rate Risk**

The portfolio duration of the Short Duration Fund was 0.07.

**II. Asset Allocation by Asset Type and Credit Quality, and Other Policy Limits**

<u><b>Asset Type</b></u>	<u><b>Policy Limits</b></u>	<u><b>Portfolio Holdings*</b></u>
State Street Bank STIF	100%	.15
AAA Structured Securities	100	60.93
Non AAA Structured Securities	50	12.32
Bridge Loans	100	0.35
Money Market Securities ( $\geq$ A1/P1)	100	2.88
Money Market Securities ( $<$ A1/P1)	25	1.99
Total Corporate Securities	50	6.97
<u><b>Credit Quality</b></u>		
Securities rated AAA (LT) or A1/P1 (ST) or higher	100%	64.31
Total Split Rated and A2/P2 (ST) or non-AAA (LT)	50	21.28
<u><b>Other Restriction</b></u>		
Total Fixed Rate Exposure ( $>$ 35 day maturity)	35%	2.35

\*Based on \$1 Billion portfolio, thus will not add to 100%

**III. Violations To Policy**

There were no policy violations this quarter.



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May 15, 2006

**SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Internally Managed High Quality LIBOR Fund  
(Quarter Ended March 31, 2006)
- II. PROGRAM:** Domestic Fixed Income
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

Attached is a report that reviews compliance of the internally managed High Quality LIBOR fund to approved policy guidelines for the quarter ended March 31, 2006.

The Investment Committee approved the "California Public Employees' Retirement System Statement Of Investment Policy For Dollar-Denominated Fixed Income Limited-Duration Investment Policy" (Policy) at its February 14, 2006 meeting. These guidelines require at least quarterly reporting of portfolio duration, sector weightings, fixed and floating rate breakout, security rating scales, and an exceptions report that covers policy violations.

Section I measures the short-term fund's interest rate exposure using portfolio duration.

Section II lists the portfolio's allocation by asset class and credit quality as of quarter end. The table also lists other positions of the fund relative to policy restrictions. The portfolio is within approved guidelines.

Section III describes violations of the Policy that occurred during the quarter, including investing only in permissible securities and compliance with specified restrictions. There were no violations during the quarter ended March 31, 2006.

**V. STRATEGIC PLAN:**

This item supports Goal VIII, Objective 4, Strategy C by providing a monitoring system that periodically updates risk management review and findings for the asset class.

**VI. RESULTS/COSTS:**

The market value of the High Quality LIBOR portfolio as of March 31, 2006 was \$6.9 billion. This agenda item reviews the portfolio's compliance to its guidelines.

Prepared by:

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**QUARTER REVIEW OF THE INTERNALLY MANAGED  
HIGH QUALITY LIBOR FUND ENDING March 31, 2006**

**I. Interest Rate Risk**

The portfolio duration of the High Quality LIBOR Fund was 0.06.

**II. Asset Allocation by Asset Type and Credit Quality, and Other Policy Limits**

<u>Asset Type</u>	<u>Policy Limits</u>	<u>Portfolio Holdings</u>
State Street Bank STIF	100%	2.33
AAA Floating Rate Structured Securities	100	71.63
AAA Fixed Rate Structured Securities	20	0.00
Money Market Securities ( $\geq$ A1/P1)	100	24.66
Money Market Securities ( $<$ A1/P1)	25	1.38
High Quality Libor Fund		<u>100.0%</u>

**Credit Quality**

Securities rated AAA (LT) or A1/P1 (ST) or higher	100%	98.62
Total Split Rated and A2/P2 money market securities ( $>$ 1 day maturity)	25	1.38
High Quality Libor Fund		<u>100.0%</u>

**Other Restriction**

Total Fixed Rate Exposure ( $>$ 35 day maturity)	20%	0.00%
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**III. Violations To Policy**

There were no policy violations this quarter.